

Strategic Goal #1: For qualified transactions, aggressively match financing offers from foreign, officially supported competitors.

Annual Performance Goal 1.1: In FY2001, provide financing that meets all confirmed competition on qualified loan and guarantee transactions.

Measure:

Data Source:

Authorization data from Ex-Im Bank's accounting system

Baseline:

Final approval requests received by Fiscal Year and the disposition of the request					
	FY96	FY97	FY98	FY99	FY00*
<i>Number of Cases facing confirmed competition</i>	25	13	20	7	3
<i>Number of Cases where Ex-Im Bank financing considered competitive</i>	25	12	19	7	3
<i>Number of Cases alleged to be facing competition</i>	65	119	158	107	90

*preliminary

Verification and Validation:

Ex-Im Bank has established in its case processing computer system a field for capturing allegations of competition and an indicator for confirmation of that competition. The credit officer working on the case will discuss with the customer the level of competition for the transaction and if it appears that competition supported by official government financing exists will query the other *ECA* for confirmation. Such confirmation is received in written form (either by fax or inter-country e-mail). Should the transaction go forward with Ex-Im Bank financing support, the transaction is considered to be competitive. Should the transaction fail to go forward, the credit officer would discuss with the customer the reasons for not proceeding forward. That information is also included in Ex-Im Bank's case processing system. All allegations of losses are further investigated by the Policy and Planning division and confirmed with the customer. The reasons for loss are also developed so that Ex-Im Bank can determine whether programmatic or policy changes should be considered in order to improve Ex-Im Bank's competitive position.

Comments:

Although approximately 1/3 of Ex-Im Bank financing requests (by number of *final commitment* applications received) have competition alleged, very few of those allegations are investigated and confirmed. Ex-Im Bank plans to increase the number of allegations it investigates to a point where staff believes at least 95% of all truly competitive situations have been confirmed.

Means and Strategies:

2001 Strategies

- Ex-Im Bank will revise its current market survey reports to develop better information on issues that are key to Ex-Im Bank's competitiveness. With this new information, Ex-Im Bank will begin a review of each of the relevant policies including Ex-Im Bank's *U.S. content* policy.
- Ex-Im Bank will establish a local currency guarantee program, a variant of the existing foreign currency guarantee program.
- Ex-Im Bank will work with the Treasury Department to develop a program for matching "untied" aid offered by Japan.

Means

Human Resources:

Ex-Im Bank will have 47 FTEs engaged in reviewing applications, performing analysis and making recommendations for loan or guarantee support. These resources are also applied to annual performance goal 3.4.

Program Budget:

Ex-Im Bank does not set-aside budget authority for individual goals (other than 10% for small business support). Thus, within the boundaries of need for Ex-Im Bank, the first transaction in has the first access to financing support. Unlike other government credit programs, Ex-Im Bank does not allocate financing to certain markets or industries; rather it responds to the needs of the market. For example, as a result of the Asia crisis, in FY1999 demand for financing in Asia was significantly lower than in previous fiscal years, but the demand for Ex-Im Bank financing was still significant. Ex-Im Bank was able to provide financing for those transactions that needed assistance and therefore, was able keep U.S. exports (and the jobs associated with those exports) from declining even further.

Ex-Im Bank requests program budget based on the expected demand for its service, but does not historically break down demand based on the market imperfection being addressed. Nonetheless, historical data does suggest that the level of demand to face competition will be in the \$100-500 million range, and therefore, the need for program budget for this goal is around \$25 million.

Administrative Budget:

Ex-Im Bank has allocated \$303,750 for travel related to specific transactions (including deal-specific travel expenses for attorneys and engineers who are evaluating the transaction). These travel expenses are also used to support annual performance goal 3.4. No other special administrative budget resources are required for this goal.

Technical Resources:

Ex-Im Bank will use existing computer and management information systems, with the addition of certain customized analytical reports, to achieve this goal.

External Factors:

- The external factor most likely to affect Ex-Im Bank's ability to meet this goal is the trend of global economic conditions. Demand for Ex-Im Bank financing is typically at its peak during poor to normal conditions, not during catastrophic or excellent global economic conditions. For example, the Latin America crisis of 1982 resulted in a dramatic drop in Ex-Im Bank financing as demand for exports declined and the risk of transactions increased. Conversely, the Asia financial crisis of 1998 resulted in an increased demand for Ex-Im Bank financing as the Bank was called upon to assume the additional risk of Asian buyers for short- and medium-term transactions. Prior to the financial crisis, many Asian countries experienced strong economic conditions and buyers in these markets were able to access commercial financing. However, where a combination of catastrophic economic and political conditions is observed, demand for financing is weak or non-existent.
- Ex-Im Bank is evaluating the degree of change that foreign ECAs are pursuing in their export finance programs and practices. Ex-Im Bank's ability to remain competitive with foreign ECAs is affected by the pace and scope of these changes. The faster and more expansive the changes, the harder it will be for Ex-Im Bank to achieve case-by-case competitiveness.
- In addition, to the extent that the changes in foreign ECA's programs and practices reflect a fundamental shift in mission/goals to unilateral export promotion in support of industrial policy, Ex-Im Bank will be generally disadvantaged unless a fundamental philosophical shift occurs within the US government.

Annual Performance Goal 1.2: In FY2001, revise the overall financing program for limited recourse *project finance* transactions so that it can strongly compete with, in all material respects, offers made by foreign *ECA's* for such transactions.

Measure:

Data Source:

Authorization data from Ex-Im Bank's accounting system

Baseline:

Ex-Im Bank has just started counting **project finance** deals lost for competitiveness reasons, but current surveys indicate that Ex-Im Bank is uncompetitive in two broad areas: procedures and philosophy. Specifically, several of Ex-Im Bank's procedures perceived as too negative.

Status of Project Finance Deals					
	FY96	FY97	FY98	FY99	FY00*
<i>Total Number of Project Finance deals initiated with Ex-Im Bank at all commitment levels</i>	31	123	79	74	72
<i>Number of Project Finance deals initiated with Ex-Im Bank as a Final Commitment</i>	10	4	5	5	9
<i>Number of Project Finance deals closed/completed with Ex-Im Bank</i>	8	8	0	1	7
<i>Number of Project Finance deals closed/completed without requiring Ex-Im Bank financing</i>	1	1	0	1	1
<i>Number of Project Finance deals lost</i>	0	0	0	0	0

*preliminary

However, it should be noted that the information gathered relates to specific applications. Projects sponsors and exporters frequently tell staff that Ex-Im Bank is not directly approached on transactions because Ex-Im Bank is thought to be less competitive. This is the case with several projects in China where Foster Wheeler never approached the Bank, but went to Spain's export credit agency for support, thus switching potential US exports to Spain. Because these deals were never actual applications at Ex-Im Bank, they are not included in the database. Enron, General Electric and other US companies have followed similar practices and shifted procurement overseas to access foreign ECA support.

Verification and Validation:

Ex-Im Bank's Structured Finance group maintains close relationships with large U.S. project sponsors. When there is a problem with competitiveness, this group of companies has not been shy in letting Ex-Im Bank know of the problem. However, a more formal communication method has been established through an annual customer survey on competitiveness. This survey is prepared annually by the Policy and Planning division and sent to a wide number of U.S. exporters (including a sample of project sponsors). The Policy and Planning division compiles the results of the survey and shares them with the relevant programs and divisions. In addition, the Structured Finance division will initiate a project finance specific competitiveness survey.

Means and Strategies:

2001 Strategies

- Ex-Im Bank will conduct a project finance specific survey of the competitiveness differences between ECAs on an industry-by-industry basis.

- Ex-Im Bank will make local cost financing more readily obtainable.
- Ex-Im Bank will share financial advisory services with other ECAs.
- Ex-Im Bank will work with financial institutions to develop more attractive financing practices by being more flexible in Ex-Im Bank guarantee processing procedures.

Means

Human Resources:

The Structured Finance group currently has a staff of 10 engaged in reviewing applications, performing analysis and making recommendations for transactions facing foreign, officially supported competition.

Program Budget:

Ex-Im Bank does not set-aside budget authority for individual goals (other than 10% for small business support). Thus, within the boundaries of need for Ex-Im Bank, the first transaction in has the first access to financing support. Unlike other government credit programs, Ex-Im Bank does not allocate financing to certain markets or industries; rather it responds to the needs of the market. For example, as a result of the Asia crisis, in FY1999 demand for financing in Asia was significantly lower than in previous fiscal years, but the demand for Ex-Im Bank financing was still significant. Ex-Im Bank was able to provide financing for those transactions that needed assistance and therefore, was able keep U.S. exports (and the jobs associated with those exports) from declining even further.

Ex-Im Bank requests program budget based on the expected demand for its service, but does not historically break down demand based on the market imperfection being addressed. Nonetheless, historical data does suggest that the level of demand to face competition will be in the \$1.5 - \$2 billion range, and therefore, the need for program budget for this goal is around \$245 million.

Administrative Budget:

Ex-Im Bank has allocated a travel budget of \$123,750 for pursuit of this goal. This goal typically requires deal-specific travel where loan officers, engineers and attorneys perform due diligence and/or deal negotiations. No other special administrative budget resources are required for this goal.

Technical Resources:

Ex-Im Bank will use existing computer and management information systems, with the addition of certain customized analytical reports, to achieve this goal.

External Factors:

- The external factor most likely to affect Ex-Im Bank's ability to meet this goal is the trend of global economic conditions. Demand for Ex-Im Bank financing is typically at its peak during poor to normal conditions, not during catastrophic or excellent global economic conditions.

For example, the Latin America crisis of 1982 resulted in a dramatic drop in Ex-Im Bank financing as demand for exports declined and the risk of transactions increased. Conversely, the Asia financial crisis of 1998 resulted in an increased demand for Ex-Im Bank financing as the Bank was called upon to assume the additional risk of Asian buyers for short- and medium-term transactions. Prior to the financial crisis, many Asian countries experienced strong economic conditions and buyers in these markets were able to access commercial financing. However, where a combination of catastrophic economic and political conditions is observed, demand for limited recourse project financing is weak or non-existent.

- Ex-Im Bank is evaluating the degree of change that foreign ECAs are pursuing in their export finance programs and practices. Ex-Im Bank's ability to remain competitive with foreign ECAs is affected by the pace and scope of these changes. The faster and more expansive the changes, the harder it will be for Ex-Im Bank to achieve case-by-case competitiveness.
- In addition, to the extent that the changes in foreign ECA's programs and practices reflect a fundamental shift in mission/goals to unilateral export promotion in support of industrial policy, Ex-Im Bank will be generally disadvantaged unless a fundamental philosophical shift occurs within the US government.

Annual Performance Goal 1.3: In FY2001, further develop an overall financing program for large aircraft transactions which strongly competes with the offers that can be made pursuant to foreign ECA support for Airbus.

Ex-Im Bank's objective for this annual performance goal is that no U.S. aircraft manufacturer will feel at a competitive disadvantage on financing in comparison with financing offered by foreign ECAs.

Measure:

Data Source:

Survey of buyers on what is not competitive in Ex-Im Bank's aircraft financing offers.

Baseline:

A current survey of U.S. aircraft manufacturers indicates that there has not been a deal where the manufacturer felt competitively disadvantaged on financing. However, the market is becoming increasingly competitive and Ex-Im Bank believes it will need to develop new program offerings that will continue to effectively compete with foreign aircraft manufacturers such as *Airbus*.

Airbus, the European aircraft manufacturing consortium, aggressively continues to pursue its stated goal, which is to obtain 50% of all commercial jet aircraft orders thereby ending the United States' (i.e., Boeing's) dominant position in the large commercial aircraft industry. The European *export credit agencies* continue to provide aggressive financing support for Airbus' customers. This aggressive support by the European *ECAs* is exhibited in three principal ways:

1. through European *ECA* support for a wide variety of airlines in a diverse number of countries of various credit quality,

2. through European *ECA* participation in “mismatch loan structures”, the effect of which is to provide an airline with longer than 12 year debt economics, and
3. through European *ECAs*’ offers of a “no cost” three year fixed interest rate option.

In response to the aggressive support afforded Airbus by the European ECAs, the export community has requested more flexibility with respect to Ex-Im Bank support for third country content. Specifically, exporters suggested that to compete with the European ECAs, Ex-Im Bank’s third country content policy should follow an aggregate approach and in some cases, the third country content threshold should be raised beyond the current 15% level. Exporters have also commented that the widespread use of the *market window* (by KfW in Germany) makes it necessary for the US to establish a market window to compete with Airbus. In addition, the export community maintains that Ex-Im Bank’s practice of exceptionally charging higher than a 3% exposure fee to compensate for increased risk puts the US exporter at a disadvantage vis-à-vis the European ECAs, which do not charge more for aircraft transactions in riskier markets. Despite these perceived shortcomings in Ex-Im Bank financing support, however, the export community does not allege that it has lost sales due to inferior official export credit support from Ex-Im Bank.

Verification and Validation:

Ex-Im Bank’s Transportation group maintains close relationships with the U.S. manufacturers of aircraft. When there is a problem with competitiveness, this group of manufacturers has not been shy in letting Ex-Im Bank know of the problem. However, a more formal communication method has been established through an annual customer survey on competitiveness. This survey is prepared annually by the Policy and Planning division and sent to a wide number of U.S. exporters (including U.S. aircraft manufacturers). The Policy and Planning division compiles the results of the survey and shares them with the relevant programs and divisions.

Means and Strategies:

2001 Strategies

In order to remain competitive, Ex-Im Bank is being creative in designing its own financing structures that attempt to allow the U.S. aircraft manufacturing industry to compete effectively against *Airbus* and the European *ECAs*. The objective of these more creative financing structures is to neutralize the role of officially supported financing in an airline’s aircraft purchase decision and/or to enhance the creditworthiness of certain transactions to enable Ex-Im Bank support to be issued. Specifically, Ex-Im Bank will increase its flexibility in applying processing procedures, to facilitate more competitive financing structures.

2001 Means

Human Resources:

Ex-Im Bank currently has 9 FTEs engaged in reviewing applications, performing analysis and making recommendations for aircraft financing offers.

Program Budget:

Ex-Im Bank does not set-aside budget authority for individual goals (other than 10% for small business support). Thus, within the boundaries of need for Ex-Im Bank, the first transaction in has the first access to financing support. Unlike other government credit programs, Ex-Im Bank does not allocate financing to certain markets or industries; rather it responds to the needs of the market.

Ex-Im Bank requests program budget based on the expected demand for its service, but does not historically break down demand based on the market imperfection being addressed. Accordingly, the current aircraft delivery schedule suggests that the level of demand for Ex-Im Bank support will be in the \$3 - \$3.5 billion range, and therefore, the need for program budget for this goal is around \$400 million.

Administrative Budget:

Ex-Im Bank has allocated a travel budget of \$50,000 for pursuit of this goal. This goal typically requires deal-specific travel where loan officers perform due diligence and/or deal negotiations. No other special administrative budget resources are required for this goal.

Technical Resources:

Ex-Im Bank will use existing computer and management information systems, with the addition of certain customized analytical reports, to achieve this goal.

External Factors:

- The external factor most likely to affect Ex-Im Bank's ability to meet this goal is the trend of global economic conditions. Demand for Ex-Im Bank financing is typically at its peak during poor to normal conditions, not during catastrophic or excellent global economic conditions.
- Ex-Im Bank is evaluating the changes made by foreign ECAs in their export finance programs and practices as they relate to aircraft. Ex-Im Bank's programs and practices may be influenced by the pace and scope of changes in competitive factors.
- In addition, to the extent that the changes in foreign ECA's programs and practices reflect a fundamental shift in mission/goals to unilateral export promotion in support of industrial policy, Ex-Im Bank will be generally disadvantaged unless a fundamental philosophical shift occurs within the US government.